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12

METALLIC MONEY,

ITS

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AND ITS

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PHILADELPHIA:
PRINTED AT THE OFFICE OF THE PUBLIC LEDGER.
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Whilst it is no disparagement to the general intelligence of an individual to affirm his ignorance of a subject which he does not profess to have studied, it is highly discreditable to be willing to remain in ignorance of that which may be readily learned, and the knowledge of which is indispensable to the proper discharge of important duties, the burden of which may have been voluntarily assumed. And no man can advance any valid claim to the character of a statesman, who is not familiar with at least the general principles and the elementary truths of political economy. To illustrate ignorance, which is but too general, by a direct reference to individual cases, would be invidious; and this ignorance is in truth so pervading, that the evidence of its existence is to be found in almost every published speech or written opinion (having relation to financial matters) of prominent politicians. In the belief that knowledge in the constituent is the true remedy for ignorance in the representative, and with the hope of doing something to dispel the clouds of error, we propose, in a few brief articles, to institute an examination into the nature of metallic money, its value and its functions; to define some of the leading terms of the science of currency; and to apply these definitions to the elucidation of certain questions bearing directly upon the interests of large masses of the community. These questions admit of a satisfactory solution upon none other than principles strictly scientific; and they have too frequently been embarrassed, rather than simplified, by the loose and unskilful manner in which they have been treated.

In the discussion of any subject, it is of primary importance that the terms made use of be clearly defined, and that, being thus defined, they be employed exclusively in the sense attached to them. This is especially necessary in the treatment of the currency question, in relation to which notions extremely vague are very generally entertained. "Words," observes Mr. Locke, "being intended for signs of my ideas, to make them known to others, not by any natural signification, but by voluntary imposition, it is plain cheat and abuse when I make them stand sometimes for one thing and sometimes for another; the wilful doing of which can be imputed to nothing but great folly or greater dishonesty.'' And "resolve," says the author of the Templar's Dialogues, "never more to shrink from the toil of an intellectual discussion, under any pretence that it is a verbal dispute."

What, then, is intended by the term *value?* It is not utility; for neither is value consequent upon utility alone, nor is it commensurate with it. If it were, water, an element indispensable to comfort and even to existence, should be universally and immensely valuable; whilst gin, which, in almost the whole of its applications, is highly pernicious, should be possessed of little or no value. Hence the manifest error of using the words utility and value as synonymous.

Neither is the term *value* to be employed as the equivalent of *cost*, by which is clearly indicated the quantity and value of the productive agency necessary for the creation of new values, or for the addition of value to existing commodities.

Value, by Adam Smith, has been defined to mean either the *utility* of an object, or the *power of purchasing* other commodities which the possession of that object confers. The former he calls "value in use," the latter "value in exchange." It is in the latter sense alone that value is the subject of economical considerations. And thus it is that Mr. M'Culloch, in giving expression to a determination to which he does *not* adhere, remarks, "We shall never use the word *value* except to signify exchangeable worth, or value in exchange."

By Mr. Senior, value is said to "signify the capacity of being given, and received in exchange." It follows, as shown by the author of the admirable "Essay on Value," that the expressions "*exchangeable* value" and value in *exchange* are, at best, but mere pleonasms or tautologies; and the former of which admits of no intelligible explanation.

The various prefixes of real, absolute, relative, nominal and natural, so frequently employed in connection with the term value, are equally liable to objection. Thus Professor Wayland tells us that "though the act of exchange adds nothing to the absolute value of a commodity, it adds greatly to its relative value." From the context it appears that by the former expression he intends value in its only proper sense of purchasing power; whilst by the latter phrase he means, not value, but simply "the *convenience* of the buyer and seller." What is this but a gross abuse of words, and a misapprehension of the legitimate purpose of language, which, at least in its application to matters purely scientific, should be the conveyance of distinct and definite ideas in terms at once precise and of accurately defined significance. And in nothing is the perfection of a science more clearly indicated than in the exactness and precision of its terms.

In accordance, then, with numerous and very high authorities, the term value is to be used as implying a relation between two commodities, as assuming a comparison and as meaning "*purchasing power*," or "*command of quantity in exchange*." Now quantity is either magnitude or multitude; and the value of any commodity A in reference to any other commodity B is ascertained by answering the question for how *much*, or for how *many* of B will A exchange. Value is thus a technical word of exact signification, and necessarily, and by the mere force of the term, involving the ideas of *relation*, of *comparison*, of *exchange*, and of *quantity*.

In this sense of the term, a commodity is properly said to derive the whole of its value exclusively from two sources. First from its being an object of desire; and secondly, from the supply being limited. These, and these alone, are the *proximate* causes of value. With the question of *ultimate* causes we do not propose, as it is not to our purpose to meddle. Neither of the considerations thus suggested is of itself sufficient to confer value. They must co-operate, and the resulting value will be directly as the former, and inversely as the latter. Thus the value of gold, which is a commodity in precisely the same sense in which corn or iron is a commdity, is just as truly instrinsic or inherent as is the value of corn or of iron.

But, inasmuch as the idea of any thing positive or absolute is not comprehended in the definition of the word value, it expressing, as has been shown, merely a relation existing between two objects as compared with each other, it cannot with strict propriety be affirmed of value, that is truly inherent in any commodity whatever. "Value," says Mr. Say, "is a quality purely moral, and which appears to depend upon the fugitive and changeful will of man." It is a mental affection. It is the relative estimation in which objects are held. Thus the expression *intrinsic* value is to be employed simply as the antagonist to *representative* value. And hence it is that the value of gold is said to be intrinsic; that of bank notes is said to be representative. The *purchasing power* of a promise to deliver, upon demand, a certain quantity of a given commodity, as gold or silver, is manifestly dependent upon the value of the commodity to be delivered, and upon the probability of the promise being performed. And to confound the value of a promise with that of the thing promised, is as palpably absurd, as it would be to confound the value of a deed of conveyance with that of the estate conveyed.

Now, iron and gold owe their value, or power of purchasing commodities in the market, to considerations precisely similiar; that is to say, to their desirableness, and to the limitation of the supply. Gold is sought after for very many purposes, both of utility and of ornament; and its value is owing in a greater degree to the demand for its employment in the arts, than it is to its adaptation to the purposes of money. In truth, the high value of the precious metals—a value easily to be conceived of as in no degree dependent upon their employment as currency, and as antecedent to that employment—is prominent among the several qualities which pre-eminently fit them for the performance of the functions of money. "I suppose it will not be questioned," says Mr. Senior, "that the value of the precious metals, as money, must depend ultimately on their value as materials of jewelry and plate; since if they were not used as commodities, they could not circulate as money." And again: "The *primary* cause of the value of gold is its use as the material of plate. The *secondary* cause is its use as money."

But whatever be the causes of the demand, it is sufficient for our argument that the demand exists. The inquiry has reference, not to ultimate, but to proximate causes. And to represent iron, as has sometimes been done, to the disparagement of gold, as the metal truly precious or valuable, can proceed only from a confusion of ideas. Or the assertion must be looked upon as one of those frequent appeals *ad ignorantiam*, which, by demagogues, speculators and political aspirants, are addressed to the great and little vulgar—appeals which may be justly characterized as mere popularity traps, worthy of such as have recourse to them, but discreditable to those who allow themselves to be caught by hem.

No. 2.—OF THE VALUE OF THE PRECIOUS METALS.

Value, then, as has been made evident, may be predicated of gold in exactly the same sense in which it may be predicated of coal, of iron, of cotton, or of corn.

And this is a truth, the conviction of which is so natural and so settled, that even those who, to promote their own sinister purposes, set out with a formal assertion of the superiority in value of iron, or of some other commodity, over gold, usually before bringing their sophistries to a termination quietly assume the affirmative of the very proposition the truth of which they began by desaying; and the denial of which constitutes the foundation upon which to erect some superstructure of fallacy and of mystification. Such are the self contradictions in which pretension and quackery involve themselves.

Nor is the *value* of an object to be confounded with its *price*. The terms are by no means convertible. The ideas intended to be conveyed are not identical. Value, as we have seen, is command of quantity generically; price is the command of quantity specifically. It is value estimated in money; it is money value. The *value* of a commodity is its relation to other commodities in general; its *price* is its relation to money in particular. Value is the genus—price is the species.

Price may be considered as real or as nominal. Real price is that which is estimated, not in fictitious, but in real money—in the money of the commercial world—in coin, and may be either natural or speculative; natural as resulting from the antagonist action of the correlative principles of supply and demand for *consumption*, or speculative, as arising from a demand in expectation and anticipation of an increased intensity of demand and consequent rise of prices.

Nominal price is price expressed in fictitious or in representative money—such as bank promises or government paper. The term *nominal* is also employed by economical writers in reference to oscillations in price, such as result directly from variations in the quantity of the circulating medium, whether that medium be paper or metallic, or be made up of both. Fluctuations of this nature arise, not from any alteration in the relations existing between commodities generally, but from a change in the relations existing between money and commodities; a change originating entirely on the side of the former. Hence, as the increase of price is not indicative of any augmentation of value, other than money value, the employment of the word *nominal*. Commodities in general may have risen in price, but money has fallen in value. The rise is, therefore, nominal. In this sense of the term, nominal price differs from speculative price in the circumstance that a rise in the latter affects only particular commodities, the number of which is more or less limited; whilst an advance in the former extends ultimately to every description of property and of labor. "If the circulating medium be doubled, the price of every thing will be doubled." Again, prices which cannot be realized are correctly, and, in common parlance, said to be nominal.

These distinctions may appear to be unnecessary; but that they are not so, is sufficiently proved by the fact that, not, merely in popular use, but by many writers of considerable ability, the terms value, cost and price are used almost indiscriminately. Thus Mr. D. Ricardo having defined the word value to mean purchasing power, or "the quantity of any other commodity for which a commodity will exchange," subsequently employs it as synonymous with *cost;* and by this one ambiguity has, in the language of Mr. Senior, "rendered his great work a long enigma." Professor Wayland constantly confounds *value* with *price*. And the same writer elsewhere talks about the *price* of *money*, meaning thereby the interest upon capital! With equal propriety might he call the rent of a farm its price. Mr. Norman, in his excellent "Essay on Banking and Currency," uses the word price in three different senses; as signifying money value, cost, and purchasing power. Malthus and M'Culloch correctly define value to be the power of purchasing; yet the former makes a distinction between *absolute* and *relative* value; and the latter between *real* and *exchangeable* value—distinctions not to be reconciled with their own definitions.

In these, and in numerous other instances, the ordinary result is to induce great perplexity in the mind of the reader and to impair the force of arguments which, if they were clothed in language well defined and cautiously and consistently used, would be much more successfully employed in the removal of prejudice and in the refutation of error. "The neglect of verbal debate, that is to say, of strict discussion of terms, tends," as is justly remarked by S. T. Coleridge, "to the confirmation of prejudices"; and withstands "the advancement of truth." "I am conscious," says Dugald Steward, "of having at least uniformly attempted" that accuracy in the use of language which consists in having "invariably annexed the same meaning to the same phrase."

Finally, as value and cost are not convertible terms, so neither is value, in any proper sense, the *consequence* of the cost of production: nor is it regulated by it, inasmuch as the former must, in every case, precede the latter; it being, in truth, the *antecedent* value which determines the measure of *consequent* cost which may safely and profitably be incurred in the production of an article. Otherwise the producer must be considered as operating at random and without a sufficient motive.

That cost of production is not the cause of value is rendered still more evident by the consideration that we may readily conceive of a commodity as constantly increasing in *cost;* yet as constantly diminishing in *value*. That, under such circumstances, the commodity in question would cease to be produced, or would be produced in diminished quantity, is manifest; but that the value falls whilst the cost rises, is proof that the former cannot correctly be represented as the consequence of the latter. So to imagine is palpably to mistake the cause for the effect.

No. 3.—OF THE FUNCTIONS OF METALLIC MONEY.

Thus far we have treated of the nature of value in general, and of the value of the precious metals in particular. The term has been defined both negatively and positively. Negatively, it has been shown that value is identical neither with utility, with cost, nor with price, and that properly it is not so much a quality of matter, as it is an affection of the mind. Positively, it has been ascertained that value signifies purchasing power, or command of quality in exchange; that it involves a comparison between objects; that it is the result of this comparison; and that this result may be expressed in the form of a ratio.

It has also been shown that value is the consequence of the antagonist action of the two correlative principles of supply and demand; and that the relation expressed by the term value may be predicated of gold and silver in precisely the same sense in which it may be predicated of any other commodity whatever. We proceed to a statement of the functions of metallic money.

These functions are three in number. Money is employed as the *measure* of value, as the *medium* of exchange, and as the *commodity of contract.*

As a measure of value, of which no clear and distinct conception can be formed other than that which is suggested by the equivalent expression of a *medium of comparison,* the utility of money is in no degree dependent upon any supposed stability in its own value. Value has been exhibited as a relation—a relation that can exist only between objects that admit of comparison. "In the very term," says Torrens, "a relative and not an absolute quantity is implied." And the relation of A. to B. may be ascertained by directly comparing them together; or by comparing each with a third object, G.; and then deducing the ratio of A. to B. from the ratios of A. to G. and of B. to G. Thus, if A. be to G. as 1 to 2; and if B. be to G. as 4 to 1. the relation of A. to B. will evidently be that of 1 to 8. And this relation will not be less easily, or the less clearly ascertained, should the value of the medium G. be conceived of as perpetually varying. If a bushel of wheat be worth one ounce of silver, and a barrel of flour be worth five ounces of silver, one of the latter will manifestly be worth five of the former. And whether the value of one ounce of silver be to-morrow twice as great, or only half as great, as it is to day, is in this respect a matter of no consequence. In many respects it may be a point of very great importance; but in its bearing upon our argument it is a matter of no consequence whatever. It is a consideration altogether irrelevant. The relation of a barrel of flour to a bushel of wheat, or that of a hogshead of tobacco to a bale of cotton, is not necessarily in the least affected by a change in the value of the ounce of silver. And this relation might still be as easily and as surely ascertained, either by a direct or by an indirect comparison, as it could be, were the value of the silver to remain constant and fixed.

The same is true of the relations existing between all other commodities. Hence it becomes apparent that fixedness or stability of value is not essential in a common *measure* of value. All that is required is identity of substance; whilst stability in value is utterly inconsistent and irreconcileable with the idea of a *standard,* by which to measure variations in value. If a commodity, as gold, assumed as a standard of value, remain constant in its own value, the relations which it bears to each of all other commodities must also remain constant; or our definition of value is not accurate. It follows that the relations of all other commodities among themselves remain unchanged; and we are thus provided with a standard by which to measure changes of value, which changes, by the very terms of the hypothesis, cannot possibly take place. The notion of an *invariable* standard, by which to measure changes of value, is, then, an absurdity and an impossibility. "The very supposition" of a standard "being at one and the same time invariable and capable of measuring the variations of other commodities, involves," in the language of Mr. Bailey, "a direct contradiction." "We cannot," says the Earl of Lauderdale, "express value, or a variation of value, without a comparison of two commodities." These commodities must necessarily be contemporaneous. And to assert, as the result of two distinct comparisons of A. with the standard B., that, during the interval which has elapsed between the comparisons, the value of A. has fallen is equally to affirm of the standard B. that its value has risen. The rise in the value of the one, and the fall in the value of the other are the correlatives of each other; and hence the utter impossibility of the possession of constancy or fixedness of value by any one commodity, as gold, assumed as a standard by which to *measure variations* in the value of any other commodity. It is of the very essence of value that it cannot remain fixed for an instant.

Neither, as a *medium of exchange,* is the utility of metallic money contingent upon its *inherent* value, as opposed to *representative* value. Much less, then, is it dependont upon its stability in value. Paper money is without intrinsic value, it being merely the representative of value. And the real objection to the use of paper money is not that, as a medium of exchange, (to which purpose it is, in some particulars, well adapted,) it is either unstable in value, or that it is without inherent value. All fair exchanges being of exact equivalents, it matters little whether the *medium* employed in effecting these exchanges be of stable value or be altogether without intrinsic value. The *medium* of exchange may be one possessing no other than a representative, or a conventional value.

But as a commodity to be kept on hand, and especially in its character of the great *commodity of contract,* it is of the utmost importance that money be possessed not merely of intrinsic value, but that this value should be, as nearly as possible, constant and fixed. Fluctuations in value, as we have seen, result necessarily and unavoidably from the very nature of value. But all such variations in the value of the commodity of contract as actually do occur should originate, not on the side of the money, but on the side of that commodity which is compared with money, in order to ascertain and to estimate its value.

A pecuniary contract is an engagement in reference, not to value, but to quantity, it is an engagement to deliver, at a specified period, a definite *quantity* of a specific commodity, coined gold or silver. And from the weight of the moral obligation thus incurred, a debtor, except by the voluntary act of his creditor, can be relieved only by the actual delivery of the specific commodity, at the period and in the *quantity* named in the contract; or by the delivery of that which is its exact equivalent at the time of delivery. Now, if the commodity which forms the subject matter of the contract, be itself liable from great, sudden and unforseen fluctuations in the supply, to frequent or to considerable variations in its own value or purchasing power, the calculations of the most prudent will be baffled; all pecuniary engagements become of a nature unduly speculative; and all commercial transactions upon credit must partake of a gambling character. And the unanswered and unanswerable objection to the emission, by trading associations, and for purposes of individual profit, of paper substitutes for metallic money, is not that banks issuing a paper medium thoroughly and truly convertible upon demand can either *permanently* raise prices above, or can *permanently* depress prices below what they would be, were the currency purely and exclusively metallic; for to do this they are demonstrably and totally incompetent; but that, from the law of their nature, the supply of money being through their agency at one time redundant and at another time deficient, there result oscillations in the currency, variations in the value of its denominations and fluctuations in prices, both speculative and nominal, utterly at variance with the pursuits of all honest and regular industry, and productive of the most calamitous re-actions and revulsions.

No. 4.—OF INSTABILITY OF VALUE IN PAPER CURRENCY.

Instability in value is of the essence of a currency issued in competition by rival corporations, constituted and administered as they have been and are likely to continue to be in this country.

But "fluctuations of prices, recurrence of commercial pressure, stagnation of markets and losses by insolvency," form but a few only of the many evils with which the paper system presses upon and weighs down the energies of industry, and goes far towards neutralizing the prodigious advantages, physical and political, which are the result of a combination of circumstances peculiarly favorable. The natural and irresistible tendency of a vicious corporate banking system is violently to stimulate a diseased appetite for speculative undertakings, and for inordinate profits; to beget a contempt for slow, sure and moderate gains; to give a wrong direction to enterprise; to divert the productive agency of capital; to weaken the motives to economy and the incentives to accumulation; to encourage extravagance and lavish expenditure; to undermine all confidence and sound credit; to impair the obligation of contracts; to diminish the security of property, and thus to retard the physical advancement of a country and to demoralize the mass of the community. "Banks exacerbate the malady of the speculation of one year, and the misery of the panic of the next."

"A disordered currency is one of the greatest of political evils. It undermines the virtues necessary for the support of the social system, and encourages propensities destructive of its happiness. It wars against industry, frugality and economy, and it fosters the evil spirits of extravagance and speculation." In an especial manner does the paper system, with its alternate expansions and contractions, wage war upon the interests of the laboring classes. "The things," says a very able writer, "which they have to buy are the necessaries of life, and the only commodity they have to sell, their labor, it is impossible they should keep back. They come into the market, therefore, with a double disadvantage, and the effect is invariably found to correspond with this disadvantage. A depreciation of the currency," or a rise of prices, "always depresses the laboring classes. They *must* buy and they *must* sell, and that immediately." And whilst on the one hand "the wages of labor always follow at a very unequal pace the advancement of prices," so on the other hand the ordinary consequence of a fall of prices is that the laborer is thrown out of employment.

From the expansion, excitement and inflation which are of the essence of the paper system, none derive so little advantage as does the laborer. From the subsequent and inevitably consequent contraction, depression and collapse none suffer so severely.

The great desideratum, then, for the protection of the industry, the property and the morals of a country, is not so much that the *currency* be of *uniform* value as that the *commodity of contract* be of *stable* value. If the money of a country be everywhere metallic, its value makes the nearest approach to uniformity. But uniformity in value is neither synonymous with stability in value, nor is the latter necessarily attendant or consequent upon the former. For the quarter of a century, (from 1797 to 1821,) the currency of Great Britain, consisting of Bank of England paper, and of the issues of the country bankers convertible at the will of the holders into that paper, was possessed of the highest possible degree of uniformity or equality in its value throughout the kingdom; yet such were the fluctuations in its value relatively to gold that it varied, during that period, from par to a depreciation of 25 per cent. and back again to par. And the influence of this uniform but unstable currency upon the prosperity of the country is now universally admitted to have been of the most disastrous character. It is in all quarters and by all parties acknowledged to have inflicted upon industry and upon capital injuries, from which it has required years of suffering and of exertion to recover.

In like manner, during a portion of the period for which the late Bank of the United States was chartered, this country enjoyed a currency nearly uniform in its value, a uniformity owing simply and solely to the ready convertibility of its paper portion into the precious metals. But no man of discernment and information, no man having the slightest tincture of economical science, will venture the assertion that the expansions and contractions in the volume of that currency, and the variations in the value of its denominations, or constituent portions, were not, during that period, greater, far greater, than they would or could have been, had the circulating medium been exclusively metallic.

Hence what is justly due to the labor of the country is that it shall be paid, not in names, but in a commodity possessed of a value intrinsic and comparatively stable—a value not subject to the fluctuations every where, at all times and under all circumstances, invariably attendant upon paper substitutes issued in competition by rival associations made up of irresponsible parties, and vainly attempting to unite and to harmonize the irreconcilable functions of issuers of currency and of borrowers and lenders of capital.

How true, then, the assertion that "of all the contrivances for cheating the laboring classes of mankind, none has been more effectual than that which deludes them with paper money" * * * * * "Ordinary tyranny, oppression, excessive taxation, these bear lightly on the happiness of the mass of the community, compared with fraudulent currencies, and the robberies committed by depreciated paper. Our own history has recorded, for our own instruction, enough and more than enough of the demoralizing tendency, the injustice and the intolerable oppression on the virtuous and well disposed, of a degraded paper currency, authorized, or *in any way countenanced* by Government."

No. 5.—OF DEPRECIATION.

Value has been shown to signify command of quantity in exchange. Depreciation is simply a diminution of value. Now, as value is a relation—the ratio of A. to B.; or of A. to B., to C. or to D.—the value of a given commodity may have been augmented relatively to one commodity, whilst it has actually been diminished in reference to another commodity. There is, then, no *necessary* contradiction in affirming of the currency of a country that it has depreciated, and in again affirming that it has *not* depreciated. The affirmations may have been made with a tacit reference to different objects of comparison, or in contemplation of different standards of value; and the standards intended may have been sufficiently indicated in the context. The apparent inconsistency, and the actual ambiguity involved in these seemingly contradictory assertions, whilst they may give evidence of a loose employment of language, and of a want of accuracy in not distinctly stating in relation to what commodity, or to what class of commodities, the currency is said to be depreciated, yet admit of an explanation as easy as it is satisfactory and conclusive.

The term *depreciation*, in its application to definite portions of the currency, is employed by economical writers in three different and distinct senses. Given portions of the currency are spoken of as depreciated relatively to a particular commodity, *as coin, or as bullion;* relatively to *commodities generally;* or relatively to similar and equal portions of the *currencies of other countries.* Thus, in illustration of the employment of the term in the first and second senses assigned to it, Mr. D. Ricardo, in giving his evidence before a Committee of Parliament, says "I think it quite possible that a bank note may be depreciated," (meaning evidently in relation to gold,) "although it should rise in value," (meaning relatively to commodities generally,) "if it did not rise in value equal to the standard." And not only is the depreciation here spoken of "quite possible"; but a bank note cannot be other than depreciated, whenever it is not the equivalent of coin; that is to say, whenever its value is less than it professes to be—whenever it commands in exchange a less quantity of the precious metals than is indicated by its denomination.

Depreciation of the currency, in the third sense mentioned, whenever it becomes at all considerable, is invariably indicated by the rate of the foreign exchange. Hence it is commonly said that to the foreign exchanges are we to look as to the sole test and measure of this depreciation. The proposition thus enunciated requires a slight modification. "There being two causes," says Coppleston, "which regulate the exchange, viz., the balance of payments and the intrinsic value of the currency, these may operate either in conjunction or in opposition to each other. In the first case the rate will be as their *sum*, in the second as their *difference*." In other words, what has by economical writers been termed the *real* rate of exchange depends upon the balance of cash payments, or upon the preponderance of immediate liabilities; what has been called the *nominal* rate depends upon the condition of the currency. The *actual* rate is the result of their sum or of their difference. $A = N \pm R$.

Fluctuations in real exchange are confined within comparatively narrow limits, and cannot, except for very short periods and under peculiar circumstances, exceed the cost of conveying the precious metals from one point to another. Fluctuations in nominal exchange, being dependent upon the value of the local mediums, will be great or small according to the less or greater stability in the value of those mediums.

It is evident, also, that if expansion in the currency and inflation of prices be equal and contemporaneous in two or more countries, their currencies may remain at par relatively to each other, whilst in relation to commodities generally the currency of each country may have greatly depreciated. Such in 1836 was the condition of the currencies of England and of the United States; and the *proximate* cause of the revulsion of 1837 in this country is to be found in the fact of the expansion continuing and increasing here, after the contraction had commenced in England. The equilibrium of the two currencies had been destroyed; the exchanges, ceasing to be sustained by loans of foreign capital, necessarily became unfavorable; a consequent drain upon the banks was rapidly exhausting their coffers; and these institutions being unable or unwilling (probably both) to meet and to overcome the emergency, by a contraction of issues, and a curtailment of credits proportionate to that which had been resorted to abroad, were led to the adoption of the only remaining alternative of stopping payment; thus defrauding their creditors and bringing disgrace and dishonor upon themselves.

And the same general truth is illustrated by the recent abortive attempt at a resumption of payments by the banks of this community; an effort not preceded by a sufficient contraction of credits and curtailment of issues; and rendered doubly hazardous by the gross blunder of an intimate connection of establishments comparatively sound and strong, with a broken down and discredited institution.

So too in England, it has been asserted by very high commercial authority, and the general correctness of the statement has not been denied, (the only question at issue between the contending parties being as to who are the real culprits, the Bank of England or the Joint Stock Banks,) that the violent oscillations in the currency, and the consequent fluctuations in prices during the crisis of 1839, have cost the manufacturing and commercial industry of that country not less than 50,000,000 pounds sterling; bank paper continuing during the whole period to be convertible into gold, and its value, consequently, remaining uniform throughout all parts of the kingdom. This, it must be conceded, is paying rather dearly for the advantages usually *assumed* to flow from the employment of paper promises as substitutes for metallic money. For by those considered to be the most intelligent and the best informed in commercial matters, and by the highest authorities scientific and practical, it is at present generally admitted that these results could have happened neither here nor abroad, had the currencies of the two countries been purely metallic. Hence the maxim which is now laid down, and which, as correctly stated by Mr. S. Ricardo, is universally received " by writers of admitted authority in the currency question, is, that the soundest and best currency is that which makes the nearest approximation to one that is exclusively metallic." From this admission, inasmuch as the nearest possible approximation to a thing is to be found in the thing itself, it seems necessarily to follow that a currency purely metallic is preferable to all others; a conclusion not only in the strictest accordance with those legitimate deductions which are derived from the elementary and settled principles of science, but one which is fully sustained and strengthened by an appeal to facts. The evidence from experience is abundant to show that the stability in the value of the currency, and the consequent comparative exemption from disastrous monetary revulsions, are in exact proportion to the ratio in which the precious metals enter into its composition. Thus, whilst in both countries prices are frequently and rapidly running from the one extreme of inordinate inflation into the other extreme of ruinous depression, in this country these fluctuations have usually been far greater than in England. In England they have been greater than in France; whilst in Cuba they have been the least of all. But in the United States paper money forms at least seven eighths of the circulating medium; in England about one half; and in France not more than one eighth. In Cuba the currency is wholly metallic.

The only valid objections which can honestly and intelligently be urged against the use of metallic currency are comprised in two words—it is *cumbrous*, and it is *costly*. But, on the other hand, the only material advantages which can be shown to be attendant upon the employment of paper substitutes for coin, are to be found in the superior economy and in the greater convenience of paper. The convenience is obvious; but the economy consists not in the less cost of *maintaining* the paper substitute; for, in this sense, the paper is the dearer medium; but in the absence of intrinsic value. And both the economy and the convenience are constantly, habitually, ignorantly and grossly exaggerated. The more thoroughly the nature and the extent of these advantages are investigated; the more fully they are understood, and the more justly they are appreciated, the lower will be the estimate put upon their importance. The more severe and the more searching the analysis, the clearer and the stronger will be the conviction that *stability in value* is the object of primary and paramount consequence; and that to its attainment, considerations of secondary and of minor importance should, without hesitation, be sacrificed.

"If," on the contrary, " it be wished that the country should be kept forever under an intermittent fever—now suffering from a hot then from a cold fit, now in an unnatural state of excitement, leading to, and necessarily ending in an unnatural state of depression—the present money system is the best possible."

No. 6.—OF THE INFLUENCE OF MONEY UPON PRICES.

To a metallic currency the most popular objection is that prices, and especially the price of labor, would, under such a currency, be of necessity lower than what would be their average rate with a convertible paper circulation. And although the direct and positive assertion has not, in any responsible quarter, been hazarded, yet the inference plainly intended to be drawn is that this lower scale of prices would be permanent. Let the grounds of this opinion be examined, and let its soundness be tested by an application of the principles of science, and of the conclusions of common sense. And, in order that the advocate of the paper system may have his case placed in the strongest and most favorable position possible, let it be supposed that the mixed currency of coin and paper of a particular country, as the United States, is neither redundant nor deficient; that it is full, and that the foreign exchanges are at par. Let it be further supposed that, in this quiescent and balanced condition of the currency, the whole of the paper portion of the mixed mass is, at a single blow, suppressed and annihilated. And let it be assumed that the consequence of this suppression is an immediate and a general fall of prices to the extent of 50 per cent. What would be the effect of such a reduction of prices upon the foreign commerce of the country? It is to be borne in mind that prices abroad are not supposed to have been depressed by any general diminution in the amount of the currency of the commercial world analogous to that supposed to have taken place at home. What then would be the effect of a local fall of prices such as has been assumed as the basis of our argument? Evidently and undeniably the ultimate and inevitable result would be a prodigious augmentation in the amount of the exports; and this for the plain reason that the inducement to the exporter of a commodity to send it abroad is to obtain, in exchange for the exported commodity, a larger quantity of the precious metals than the same article would command in the home market.

For a like reason, the effect upon the import trade would be exactly the reverse of its operation upon the exports. Foreign commodities would cease to be imported, because, owing to the assumed local reduction of prices, they would command a smaller amount of the precious metals in the importing country than they would exchange for at the place of their production.—Hence there must necessarily and unavoidably arise a heavy balance of payments to the country of low prices. This balance would be discharged in gold and silver for the simple but very sufficient reason that these metals would, under the supposed circumstances, furnish the most profitable and therefore the most desirable means of remittance. And this influx of the precious metals would be not only certain and irresistible, but, *provided* the vacuum was not in the interval filled up by fresh emissions of paper, it would and must continue until the currency had been raised to its former level—until there had taken place a fresh adjustment and a new distribution of the currency of the commercial world; and until prices, including the price or money wages of labor, had again risen to the point from which the argument assumes them to have fallen in consequence of the hypothetical destruction of the paper portion of the circulating medium.

It is apparent, then, that a fall of prices produced, not by any variation in the ratio of the supply to the demand in reference to particular commodities only, and therefore partial and limited in its operation, but originating entirely on the side of the currency, must be general—must embrace all commodities; and, consequently, if local, such a fall of prices cannot possibly be of long continuance.

But let it be supposed that the depression of prices, which must of necessity result from a sudden suppression of the paper portion of the circulating medium, is a permanent depression. Let it be imagined that the influx of the precious metals, which we have represented as an unavoidable and an irresistible consequence of this fall of prices, can be and actually is prevented. And let it be granted that the currency of a particular country having commercial connections and commercial intercourse with other countries can be kept at a level permanently lower than that of those other countries. These suppositions, it is true, are all abundantly absurd; but their absurdity has not prevented their being assumed or implied, as the postulates upon which to rest various *ad ignorantiam* appeals, much erroneous reasoning and many statements utterly fallacious. Since, then, they cannot be proved, let them be conceded. Still it remains, even upon this hypothesis, demonstrably and undoubtedly true that to the laborer it is ultimately a matter of little or no moment whether his wages be paid in much or in little coin, *provided* these wages continue to give him the same command of the necessaries, the comforts and the conveniences of life. Now, that the laborer, under a reduction of prices assumed to be permanent, and originating exclusively on the side of the currency, would retain undiminished his power in the market in respect to domestic products, the advocates of the paper system have felt themselves compelled to admit. The absurdity of the contrary doctrine is too palpable. But whilst it has been conceded that in relation to one class of commodities the fall in *prices* would be in proportion to the fall in *money* wages, it has been contended that, in relation to another class of commodities, that is to say, in reference to foreign products, the rule would be liable to an exception; and that, by a fall in the *money* wages of labor, the laborer's command over the latter description of products would be impaired; or, in other words, that his *real* wages would be diminished.

An exception having thus been taken to a rule supposed to be of universal application, the general truth of which is admitted, and which, in fact, cannot be denied without flying in the face of established principles, the burden of proof would appear to rest upon those who have taken the exception. But of proof we have nothing; and of argument not much more.

If the value of money relatively to domestic products has been enhanced, not by any change of relation originating on the side of these products, but by a diminution of its own quantity; and if foreign commodities continue to exchange for the same quantity of money, whilst this same quantity of money exchanges for an augmented amount of domestic products, it follows necessarily and unavoidably that the same amount of foreign commodities must also exchange for an increased amount of domestic products. To deny this conclusion is simply to assert that things equal to the same are *not* equal to each other; for which assertion, by the way, there can be found among the dicta of the paper money authorities very good precedents.

Now, as, by the very terms of the hypothesis, these domestic products continue to exchange, in the foreign market, for the same amount of money, the profits of the holders of foreign commodities must be augmented to the precise extent of the fall of price in the home market of the domestic products; whilst on the other hand, the profits of the holders of domestic products must be diminished in exactly the same ratio. In other words, commodities which, antecedently to the supposed reduction in the quantity of the circulating medium, were the exact equivalents of each other have ceased to be equivalents, without the occurrence of any one circumstance whatever, having the smallest tendency to alter the relation which these commodities had previously borne to each other. The sellers of domestic products are thus represented as most egregiously consenting to part with their commodities for *less* than their value; and the purchasers of foreign commodities are exhibited as gratuitously consenting to give for them *more* than their value; both parties betraying a measure of ignorance and of stupidity in the strongest contrast with the sagacity and the sharp sightedness which are every where characteristic of traders.

The notion, then, that a rise in the value of money, or a fall of prices, *originating on the side of the currency*, will embrace only a limited number, or particular class, of commodities, is entirely without a basis in reason or in common sense. It is irreconcilably repugnant to the elementary truths of economical science; and will be found to be as utterly inconsistent with well ascertained facts, as it is altogether unfounded in theory. The position, in short, let it be urged by whom it may, is demonstrably, enormously, unqualifiedly, and irredeemably absurd.

No. 7.—OF THE INFLUENCE OF MONEY UPON WAGES.

Upon nothing is the prosperity of a people more dependent than upon a rate of compensation to labor permanently high. And it would be a conclusive argument against any change in the constitution of the currency, could it be made evident that the effect of such a change would be to bring about a permanent depression of *real* wages. But it has been shown first, that a suppression of the paper portion of the circulating medium could not produce a *permanent* depression either of the prices of commodities, or of the *money* wages of labor; and secondly, admitting that it did, that to the laborer it would ultimately be a matter of indifference, inasmuch as such a depression being general and uniform, would not, of necessity, involve a fall of *real* wages. The laborer's command of the necessaries, the comforts and the conveniences of life would remain unimpaired. The value, or the *purchasing power* in the market, of his labor would be undiminished.

It is still another objection to a currency exclusively metallic, that the quantity of the precious metals in existence is not sufficient to furnish a currency adequate to the performance of the functions of a medium of exchange. Now, if we suppose the currency of the whole commercial world to be permanently reduced to one half of its present amount, the only consequence would be that prices might possibly fall to one half of their present average. But commodities would continue to exchange precisely as they had done previously to the supposed reduction. They would, however, be represented by diminished portions of the circulating medium; or, in other words, the same quantities of money would represent larger quantities of commodities. Gold and silver would be the only commodities which, in consequence of the supposed diminution in the amount of the currency, would undergo any change in their value, or in their relations to other commodities; whilst all other commodities, retaining their former relations to each other, would, of necessity, retain their former values; would exchange for the same quantities; would retain the same purchasing power in the market.

"It is true we may conceive the circulating medium to be so exceedingly reduced in quantity, and a given quantity of money, consequently, to become so valuable, that the coins which are requisite for purchasing the articles most frequently needed would be inconveniently small. But those coins might also be inconveniently large, if the circulating medium be exceedingly *augmented* in quantity. And it must be obvious that, between these two extreme limits, there is a vast range, in which the quantity or amount of the circulation must be a matter *of the greatest indifference.*"

These truths appear to be so entirely self-evident, as to require merely to be distinctly stated, in order to insure their instant reception.—Whilst, on the one hand, the metallic medium of exchange may be conceived of as possessed of a value inconveniently concentrated; on the other hand, it may just as readily be imagined of a value as inconveniently diluted. In the language of Adam Smith, "A greater number of pieces might be required for conveying any equal portion of the capital of the country from hand to hand. The deeds of assignment, like the conveyances of a verbose attorney, would be more cumbersome; but the thing assigned would be precisely the same as before, and could produce only the same effects. The funds for maintaining productive labor being the same, the demand for it would be the same. Its wages, therefore, though nominally greater would be the same. They would be paid in a greater number of pieces of silver, but they would purchase only the same quantity of goods."

Again, the obvious effect of a material reduction in the aggregate amount of the mixed mass, (metallic and paper,) of the circulating medium of the commercial world, by a suppression of its paper portion, would be, (the supply of currency being thereby diminished, and the demand supposed to remain the same,) that the remaining or metallic portion would be greatly enhanced in the value, or purchasing power, of its denominations or constituent parts. This augmentation of value would, in turn, give a powerful stimulus to the business of mining. Mines, which at the former value of the precious metals could not be worked to advantage, would now be brought into successful operation; whilst more capital and more labor would be applied to the working of veins which had, at previous values, yielded a profit, and which would, consequently, now yield a higher profit. And the increased activity, thus resulting from the stimulus applied, would continue until the augmented supply of the precious metals had so apportioned itself to the demand, as again to raise prices, or *money* values, to the level from which they had fallen; when all things would once more proceed in exactly the same train in which they were advancing antecedently to the supposed suppression of paper substitutes for metallic money; with, however, these important exceptions; that the place of the representative would now be occupied by the thing represented—the paper would be displaced by the metal; and the currency would have been greatly improved in the essential attributes of steadiness and stability.

Finally, it appears by many persons to be supposed, that those who argue in favor of a metallic currency assume that all commercial exchanges ought to be effected by the employment and agency of metallic money alone. But so crude a notion, we venture to affirm, has never found entrance into the mind of any one possessing the slightest tincture of science merely elementary. If the currency passing from hand to hand were exclusively metallic, exchanges of the products and of the commodities of different and distant localities would still, in the vast majority of cases, be effected, as they now are, *without the intervention of money* either paper or metallic; that is to say, by the employment of bills of exchange drawn upon the proceeds of the sale of these commodities. Whilst commodities in the same localities would continue, as at present, to be bought and sold by checks drawn upon money actually deposited in banks not of issue, but of discount and deposit, or drawn upon credits granted by these establishments. And there can be but little doubt that one of the earliest consequences of a disuse of paper money, either partial or entire, would be an increased resort to some of the many substitutes for currency which among commercial and highly civilized nations are already in extensive use. Thus the greater part of the credit currency of London is furnished by bankers *issuing no notes*, although, if not associated in greater number than six, and not laying claim to an exemption from the operation of the just and salutary principle of the unrestrained and unlimited liability of individuals, perfectly at liberty to do so. So, too, exchanges to the amount of many millions are daily effected at the Clearing House, by the intervention of a few thousand pounds of Bank of England paper.

If then the conclusions at which we have arrived in the present article, and in those which have preceded it, be substantially and in the main correct, (and they may, as we believe, safely challenge refutation,) the only questions which can arise as to the expediency of a return to a metallic medium are, are the inconveniences of change so great, are the sufferings attendant upon the transition from paper to the metals so serious that they are not to be encountered in the certain attainment of the very great national benefits admitted to be consequent upon the possession of a stable currency. It may confidently be answered, that if the transition be sufficiently gradual, and the change be deliberately and cautiously made, these inconveniences and sufferings shrink into nothing. They become, when compared with the inflictions referable to the use of a *commodity of contract* perpetually fluctuating, evanescent and scarcely appreciable quantities. Whilst to productive industry there would be secured the enjoyment of the inestimable advantages inseparably connected with the general employment of a *commodity of contract* possessed of a value permanent, stable and fixed, so far as these properties can be truly affirmed of any commodity whatever.

ARE BANK CREDITS—COMMONLY CALLED DEPOSITS—*CURRENCY?*

"That *sum* which is *always* to be found in bank on deposit—which though it *might* be drawn out, in point of fact never is drawn out —*that sum*, we incline to think, cannot with propriety be reckoned as part of the currency. It is, we apprehend, *because* those constant deposits are *not* currency, that the banks venture to discount upon them, and supply their place in the circulation by other issues."

Such are the opinions generally entertained; and such is the answer which has actually been given to the question which stands at the head of this article. From the intimate connection of the subject with those which have been discussed in the preceding essays, we are induced to add a few remarks upon the doctrine of the extract. This doctrine is fairly and fully enunciated in the two following propositions. First, that deposits *payable upon demand,* but in fact permanent, are not currency; and secondly, that deposits of this character not being currency, their possession by a bank affords secure ground for an increase of discounts, and furnishes a sufficient justification for adding to the amount of the existing circulation by fresh issues. We shall have something to say upon each of these propositions; but as the truth of the latter is evidently dependent upon that of the former, it will be to this point that we shall chiefly direct our argument.

Let us, then, suppose a community commercial and manufacturing, in which paper substitutes for metallic money, in the shape of bank notes, are unknown. Let the quantity of coin in circulation be assumed to be entirely sufficient for the performance of the functions of a medium of exchange in reference to all the minor transactions of business—sufficient for all the petty payments of society. Let it be supposed that for the more extended operations and commercial exchanges of a busy and a flourishing community, a circulating medium of 5,000,000 is required. And further, let it be supposed that in this community there has been established a bank, *not* of issue, but a bank simply of discount and deposit, with an actual *bona fide* capital of 10,000,000, securely productively and permanently invested. A bank so constituted and so situated, it is manifest would have no *capital* whatever of its own to lend. But, would it have no *credit?* We answer that the Bank of England, having a capital of 14,000,000, *permanently* invested, has a circulation of 18,000,000, and deposits to the extent of several millions more.

Again, let it be supposed that our bank, *issuing no notes*, should have granted, upon the discount of commercial securities at short dates, to the various individuals making up the aggregate of our imaginary community, and in proportion to the exigencies of their respective cases, credits upon its books, *payable upon demand*, to the amount of 5,000,000; this being the *minimum* sum assumed to be required in order conveniently to circulate the existing mass of commodities, and to sustain prices generally at a level not appreciably lower than the level of prices in those adjoining communities with which it maintained intimate and active commercial relations.

In such a condition of things, it is evident that all the larger and more important exchanges of commodities would be affected by the agency of the credit currency thus furnished by a bank *not* of issue; and all heavy payments would be made by checks or drafts upon this bank, the honoring of which drafts would not, *of necessity*, involve the payment of a single dollar of coin. These checks would be met and satisfied by a simple transfer of a credit from the account of one depositor to that of another depositor. And so long as the credit of the bank remained unimpaired, so long as its managers were content not to furnish more of this credit currency than the *minimum*, which has been assumed as sufficient for the performance of those functions of currency to which it is properly applicable, so long would there exist not the slightest reason to apprehend any demand upon its coffers. These bank credits, or deposits payable on demand, would thus be a "*constant*" quantity—a deposit, " which, though it *might* be drawn out, in point of fact never is drawn out."

For the sake of simplification, we have argued upon the supposition of the existence of a single bank. But the case, in its essential circumstances, would not be materially different—on the contrary, it would be substantially the same—were we, instead of one bank with a capital of $10,000,000, to imagine the existence of ten banks, each with a capital of $1,000,000. The holder of a check, instead of presenting it for payment at the bank upon which it was drawn, would deposit it for collection with the bank in which he kept his account; and, at the close of the day, these various transactions would be adjusted by an exchange of checks, the resulting balances (the aggregate debt to the community remaining constant) being discharged by a cash payment, precisely as is the practice among the private bankers of London, who issue no notes, but by whom is supplied the larger portion of the credit currency of that great commercial emporium.

It is also sufficiently clear that the credits thus granted by a bank *not* of issue would be, in all the attributes essential to the constitution of a currency, exactly analogous to an issue of bank notes. The holder of a credit for 1000 dollars would be just as potential in the market, he would operate just as effectually upon prices, as if he had 1000 dollars in bank notes in his breeches pocket, or was followed by a porter bearing upon his shoulder 1000 dollars in coin. And, as with a bank note circulation, should the currency from any cause become deficient, there would be ultimately an influx of the precious metals, *provided* the bank of issue should not, in the mean time, enlarge its circulation; so, under similar circumstances, a bank *not* of issue might at its option either extend the grants of its credit, or allow the deficiency in the currency to be made up by an importation of coin. On the other hand, should the currency at any time become redundant, the bank *not* of issue, precisely as would be the case with a bank of issue, would be obliged to contract its credits by a curtailment of its discounts, or it must be prepared to meet and to submit to a demand upon its coffers for coin to be exported; which export would continue until the redundancy had been corrected.

We have thus shown that bank credits, commonly called deposits, are to "be reckoned as part of the currency." And it is a matter of no moment whatever, it is a point entirely foreign to the question in hand, whether the bank granting these credits be a bank of issue or a bank *not* of issue.

But, finally, let it be supposed that, in consequence of the growing population, and of the increasing transactions of the country, 6,000,000 has become the *minimum* necessary for the discharge of the same offices for which we have assumed that 5,000,000 had previously been sufficient. Suppose the additional sum required, to be imported in the precious metals, and to be deposited in the bank *not* of issue; and let it be granted that thenceforth it is "always to be found in bank on deposit," still, although "that sum"—that identical gold and silver, "cannot with propriety be reckoned as part of the currency," yet the credit which is given in lieu of the sum deposited, takes the place of "that sum;" is equally effective with "that sum" in the market; is equally operative on prices; in short, is just as much a constituent portion of the medium of exchange, as "that sum" would have been, had its owners, instead of depositing it in bank and drawing checks upon the credit substituted for it, paid it out in the course of their business. Hence, if a bank *not* of issue, upon the strength of a deposit of 1,000,000, for which it has given credit, and without regard to the state of the exchanges and the condition of the currency, should grant *additional* credits to the extent of 1,000,000, there would be just so much *in excess* added to the quantity of the circulating medium; and a currency which, previously to this augmentation and expansion, had been merely full, would now have become redundant. The credit currency would have been swelled from 6,000,000 to 7,000,000.

Precisely similar are the effects upon the currency, when banks of issue "venture to discount upon constant deposits and supply their place in the currency by other issues." And the true reason why "banks venture to discount upon these *constant* deposits, (but deposits payable upon demand,) is not that these deposits "are not currency," but because that, in the great majority of instances, banks are managed by parties who are utterly ignorant of even the most elementary principles of the science of currency; or by individuals who make these institutions subservient to the promotion of their personal interests merely.

We conclude, then, that bank credits are constituent portions of the currency; that the *whole* of these credits, whether constant or variable; are currency; and that they are currency whether granted by a bank of issue or by a bank *not* of issue. These credits and bank notes, in all the qualities indispensable to confer the character of currency, are substantially the same. The main differences consist in the greater or less convenience, and the greater or less efficiency for good or for evil of these different modifications of a credit medium of exchange.

Deposits payable not upon demand, but at a future specified period, being clearly not currency, the observation seems almost gratuitous that an addition to their amount may justify a bank in venturing "to discount upon them and supply their place in the circulation by other issues."